

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|   |   |            |
|---|---|------------|
| APPLICATION OF AEP KENTUCKY TRANSMISSION  | ) |            |
| COMPANY, INC. FOR A CERTIFICATE OF PUBLIC | ) | CASE NO.   |
| CONVENIENCE AND NECESSITY PURSUANT TO     | ) | 2011-00042 |
| KRS 278.020 TO PROVIDE WHOLESAL           | ) |            |
| TRANSMISSION SERVICE IN THE COMMONWEALTH  | ) |            |

COMMISSION STAFF'S INITIAL INFORMATION REQUEST TO  
AEP KENTUCKY TRANSMISSION COMPANY, INC.

AEP Kentucky Transmission Company, Inc. ("KY Transco"), pursuant to 807 KAR 5:001, is to file the original and 10 copies of the following information with the Commission, with a copy to all parties of record. The information requested herein is due no later than April 1, 2011. Responses to requests for information shall be appropriately bound, tabbed, and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

KY Transco shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

KY Transco fails or refuses to furnish all or part of the requested information, KY Transco shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to page 2, paragraph 4, of KY Transco's application. Explain whether Kentucky Transco is a voting member of PJM Interconnection L.L.C. ("PJM"). If yes, as one of six AEP transmission subsidiaries, explain whether it will have the same voting power as each of the other five subsidiaries.

2. Refer to page 2 of KY Transco's application, the last sentence of paragraph 4, which states that KY Transco "[w]ill own, control, operate and manage facilities to be used for the transmission of electricity to the public for compensation."

a. Provide the names of, or in the alternative, a general description of, the customers KY Transco intends to serve that will constitute "the public" as that term is generally used in the Commission's statutes and regulations.

b. If it were determined that KY Transco is not a utility as defined in KRS 278.010, explain whether KY Transco believes it would be subject to the jurisdiction of the Kentucky Board of Electric Generation and Transmission Siting.

3. Refer to page 5, paragraph 12(a), of the application.

a. Explain who determines/approves the regional planning process discussed in the last sentence.

b. Explain whether this planning is in accordance with the guidelines of PJM, AEP Transmission LLC (“AEPTCo”), or another entity.

4. Refer to the application, page 8, and last sentence of paragraph 17, which reads “[d]ecisions to undertake the majority of new transmission investments facing Kentucky Power are no longer within the exclusive control of Kentucky Power and AEP Transmission, as many such investments are now mandated by NERC and PJM.”

a. Describe the extent to which future transmission investments that may be mandated by the North American Electric Reliability Corporation (“NERC”) or PJM, which may not relate to service provided to Kentucky customers, can be determined to be required by the “[p]ublic convenience and necessity” as jurisdictional to this Commission pursuant to KRS 278.020.

b. Explain why a future transmission line mandated by entities such as NERC or PJM for the purpose of improving regional reliability, but that would otherwise not be constructed, would not be considered a “[n]onregulated electric transmission line” as the term is defined in KRS 278.700(5).

5. Refer to the last complete sentence on page 8 of the application. Confirm whether the word “transmission” should be inserted between “Kentucky Power” and “capital spending.”

6. Pages 8–9 of the application indicate that, among the transmission projects being evaluated by AEPTCo, KY Transco and Kentucky Power is the Soft-Shell-Bonnyman project in the Hazard Kentucky area.

a. Explain whether a determination has been made as to which party, or parties, will own this line.

b. If the answer to part a. of this request is yes, describe the process used to make the ownership determination.

7. If PJM or NERC determine that a line should be constructed in Kentucky Power's service territory for reliability purposes or to address congestion problems, explain whether the cost of the line is socialized across PJM. If yes, explain how the percentage each party pays is determined. If no, describe the process under which Kentucky Power's share would be determined.

8. Explain whether an intrastate transmission line built primarily to improve reliability on Kentucky Power's system would likely be a Kentucky Power project or a KY Transco project.

9. For the states in which AEP operating companies operate:

a. Explain whether Transcos in those states would be required to receive certificates of convenience and necessity prior to beginning transmission projects; and

b. Explain whether any of the state commissions can reject a Transco certificate application if it deems the project unnecessary.

10. If Kentucky Power were to construct a transmission line to comply with federal requirements, the up-front costs of the project would be borne by its ratepayers. To the extent such a line is used for wholesale and interstate transactions, Kentucky Power's ratepayers would benefit from those transactions. Explain how, or if, Kentucky Power ratepayers will benefit in a similar situation if KY Transco constructs the line.

11. Refer to page 12 of the application, paragraph 31, which indicates the anticipated service agreement between KY Transco and Kentucky Power Company (“Kentucky Power”) will be “[m]odeled on the existing service agreement between Kentucky Power and AEPSC.” Provide the existing service agreement between Kentucky Power and American Electric Power Service Corporation (“AEPSC”).

12. Refer to Exhibit 3 to the application, the AEPTCo Project Selection Guideline dated November 19, 2009. A statement at the top of each page states that printed copies may be obsolete. Provide the latest version, including all attachments.

13. Refer to Section 3.1 of the AEPTCo Project Selection Guideline.

a. What is the significance of 23 kV or higher transmission lines being designated as Transmission Assets in the PJM region?

b. What is the implication of AEPTCo building or owning only those transmission facilities for which the cost may be recovered from Transmission Service Customers through the Regional Transmission Owner’s approved Open Access Transmission Tariff?

14. Refer to the Direct Testimony and Exhibits of Lisa M. Barton (“Barton Testimony”), specifically, page 5, lines 19-22. Provide a description of the level of investment Kentucky Power’s transmission is expected to require over the next decade to meet:

- a. Customers’ needs;
- b. NERC requirements; and
- c. PJM requirements.

15. Refer to the Barton Testimony from page 7, line 18, to page 8, line 5. Based on the wording of the question beginning on page 7, line 18, explain whether part (1) of the answer, “[u]pgrades required to maintain system reliability and meet customer demand” is intended to apply to the Kentucky Power system, the transmission grid in general, or both.

16. Refer to the Direct Testimony and Exhibits of Jerald R. Boteler, Jr. (“Boteler Testimony”) from page 3, line 8, to page 5, line 12. This testimony discusses Kentucky Power’s financial condition, credit ratings, and relatively weak cash flow metrics. It also discusses how American Electric Power (“AEP”), the parent of both KY Transco and Kentucky Power, has supplied, and can supply, capital to its subsidiaries.

a. Describe the how the funding level available within Kentucky Power is limited, as referenced on page 5, lines 11-12.

b. Explain why the financial resources of AEP, which the testimony indicates will be available to KY Transco, could not be available in the same manner and magnitude to Kentucky Power to fund future transmission projects.

17. Refer to the Boteler Testimony, page 5, line 17, to page 6, line 25. This portion of the testimony discusses the investor perspective on a transmission-only business unit. Confirm whether, among KY Transco, Kentucky Power, and the entire AEP system that only AEP issues stock that is publicly traded.

18. Refer to the Direct Testimony and Exhibits of Ranie K. Wohnhas (“Wohnhas Testimony”) at page 6. Describe the difference, if any, of transmission formula rates of a PJM FRR participant with those of a PJM RPM participant.

19. Refer to page 7, line 16, of the Wohnhas testimony. Will the future proposed Kentucky Power cost rider include anticipated revenues by KY Transco?

20. Kentucky Power operates as an FRR participant in PJM's RPM market as it self-supplies. Does this affect the transmission cost allocation, or recovery, if the transmission is owned by KY Transco as opposed to being owned by Kentucky Power? If there is any difference, how will it affect Kentucky Power's ratepayers?

21. Refer to the Wohnhas Testimony, specifically, page 8, line 7, through page 12, line 16, which provides a comparison of a hypothetical future transmission investment under a "Transco Build Case" and an "OpCo Build Case." Explain why, from a customer perspective, this comparison should not be viewed as support for maintaining the status quo, both in terms of who builds the transmission facilities and the ratemaking treatment thereof.

22. Since Kentucky is a rate-regulated state which allows cost recovery of approved transmission projects, explain why rating agencies would necessarily be favorable to the formation of KY Transco as compared to maintaining the status quo.

23. Provide bond rating agency reports and any other rating agency or financial/investment bank advisory reports for AEP and any AEP subsidiaries issued since January 1, 2009 which discuss the risks and advantages of electric utilities creating separate transmission entities in order to obtain separate funding for new transmission projects.

24. Refer to the slides under Tab 1 of the document filed after the March 2, 2011 informal conference in this case, specifically, the next-to-last bullet on page 5.

Explain why an operating company like Kentucky Power cannot have a stronger "equity layer" with a 50 percent equity ratio like that of a Transco.

25. Refer to the slides under Tab 1 of the document filed after the March 2, 2011 informal conference in this case, specifically, the last bullet on page 5, which provides the average difference in the cost of debt between A and BBB rated utilities since 2008, based on yields of 10-year utility bonds.

a. Explain why the comparison was performed based on the cost of debt since 2008, which coincides with the timeframe of the recent economic recession, rather than the cost of debt for a longer period, such as since 2005 or since 2000.

b. Explain why 10-year utility bonds were used in the comparison when it is not uncommon for utility bonds to have terms that are longer, in some cases two or three times longer, than 10 years.



Jeff Derouen  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

DATED     **MAR 18 2011**    

cc: Parties of Record

Honorable David F Boehm  
Attorney at Law  
Boehm, Kurtz & Lowry  
36 East Seventh Street  
Suite 1510  
Cincinnati, OHIO 45202

Lawrence W Cook  
Assistant Attorney General  
Office of the Attorney General Utility & Rate  
1024 Capital Center Drive  
Suite 200  
Frankfort, KENTUCKY 40601-8204

Honorable Mark R Overstreet  
Attorney at Law  
Stites & Harbison  
421 West Main Street  
P. O. Box 634  
Frankfort, KENTUCKY 40602-0634